

STATEMENT OF CONSIDERATIONS

ADVANCE WAIVER OF THE GOVERNMENT'S U.S. AND FOREIGN PATENT RIGHTS IN INVENTIONS ARISING UNDER THE LIMITED CLASS OF FUNDING AGREEMENTS AND OTHER CONTRACTS UNDER THE DEPARTMENT OF ENERGY'S METAL INITIATIVE W(C) 92-001

The Department of Energy (DOE) granted the attached advance waiver covering DOE's Steel Initiative Program on November 4, 1987. The Steel Initiative Program was originally authorized by Public Law 99-199 (House Joint Resolution 465), the Fiscal Year 1986 continuing appropriations law, and received additional funding for Fiscal Year 1987 to continue the Steel Initiative Program through the passage of Public Law 99-591 (House Joint Resolution 738). The U.S. Congress, by virtue of the passage of Public Law 100-680 (102 Stat. 4073), entitled "Steel and Aluminum Energy Conservation and Technology Competitiveness Act of 1988," provided for an expansion of DOE's Steel Initiative Program to include research and development to achieve competitive, energy efficient steel, aluminum and copper process technologies. This expanded program was known as DOE's Metal Initiative Program and was conducted using funds provided by Congress beginning Fiscal Year 1989.

Although inventions made under DOE's Metal Initiative Program were treated in accordance with the terms and conditions of the attached Steel Initiative advance waiver, the waiver was never modified or amended to specifically cover the Metal Initiative Program.

In order to eliminate any confusion relating to the treatment accorded inventions made under DOE's Metal Initiative Program, the purpose of this Metal Initiative advance waiver is to make it clear that the attached Steel Initiative advance waiver applies to those inventions made under DOE's Metal Initiative Program. The contents of the attached Steel Initiative advance waiver are hereby incorporated by reference into this advance waiver. It is determined that this advance waiver to a limited class of one or more holding companies, which have held title to and have licensed inventions made under the Metal Initiative Program, will best serve the interests of the United States and the general public and, therefore, the waiver is granted. This waiver covers and is directed to inventions made under all funding agreements with small businesses and non-profit organizations to which the Exceptional Circumstances Determination related to DOE's Steel Initiative applies and all other contracts under DOE's Metal Initiative.

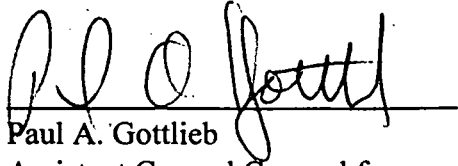
CONCURRENCE:



Douglas Kaempf, Director
Office of Industrial Process Systems

Date: 3/10/97

APPROVAL:

A handwritten signature in dark ink, appearing to read "Paul A. Gottlieb", is written over a horizontal line.

Paul A. Gottlieb
Assistant General Counsel for
Technology Transfer and
Intellectual Property

Date: 1-12-97

STATEMENT OF CONSIDERATIONS

ADVANCE WAIVER OF THE GOVERNMENT'S U.S. AND FOREIGN PATENT RIGHTS IN INVENTIONS ARISING UNDER THE LIMITED CLASS OF FUNDING AGREEMENTS AND OTHER CONTRACTS UNDER THE DEPARTMENT OF ENERGY'S STEEL INITIATIVE

The U.S. Congress, through its Fiscal Year 1986 and Fiscal Year 1987 Federal Budget Appropriations Legislation, has directed the Department of Energy to implement a research and development initiative with the National Laboratories to achieve advanced energy efficient steel process technologies (DOE's Steel Initiative). In enacting this legislation, Congress has made clear its intent to use the DOE's National Laboratories and other research organizations to develop leapfrog technology in steelmaking in order to improve the international competitive position of the U.S. domestic steel industry. Congress has supported the DOE Steel Initiative by explicitly directing additional funds to the DOE Steel Initiative Program through supplemental appropriation bills. Public Law 99-199 (House Joint Resolution 465), the Fiscal Year 1986 continuing appropriations law, included a provision that 7.1 million dollars be made available for a research and development initiative with the National Laboratories to increase significantly the energy efficiency of processes that produce steel. Public Law 99-591 (House Joint Resolution 738), enacting continuing appropriations for Fiscal Year 1987, included a provision providing 2 million dollars for continuing the Steel Initiative.

Both of these appropriations bills included provisions that the obligation of these funds would be contingent upon an agreement by industry to provide cash or in-kind contributions to the initiative or to provide other collaborative research and development activities related to the purpose of the initiative, equal to 30% of the amount of Federal Government obligations. Further, Congress has provided for repayment by the participants of the Federal expenditures up to 1 1/2 times from the proceeds of the commercial sale, lease, manufacture or use of technologies developed under the proviso, at a rate of 1/4 of all net proceeds. Various conference and committee reports have made clear Congress' intent that cost-sharing by the U.S. industry participants is essential to carrying out the Steel Initiative. Further, it is intended that knowledge gained from the research be available only to participating companies and researchers involved in the program, and strong steps are to be taken to promote American industry.

During discussions and negotiations directed to the establishment of the DOE Steel Initiative Management Plan, interchange among industry representatives, representatives of the National Laboratories, and DOE program representatives raised several very important issues. In order to meet the legislative requirements previously stated, the industry must provide contributions equal to 30% of the amount of the Federal Government obligations, although this 30% total may include indirect cost-sharing as well as direct cost-sharing. To justify the industrial participants' cost-sharing of the Steel Initiative and the participants' repaying up to 1 1/2 times the Federal expenditures from the net proceeds of the technologies developed under the Steel Initiative as also required by the legislation, it will be necessary to provide the participants a firm patent position to protect their interests. This Advance Waiver to the Limited Class provides the mechanism by which such patent position can be effected and will enable industrial participants to cover their initial cost-share and provide them a head start position in the developed technologies to enable their repayment of the Federal expenditures. In conformance with DOE waiver policy and program objectives, it has been determined that industrial participants will be required to provide at least 20% direct R&D cost-sharing (which may include in-kind R&D contributions by the participants) to the total R&D project costs for each project. It is the intent under this waiver that the required 20% direct cost-sharing for each project will be met by the sum total of contributions made by the industrial participants and any one individual participant may contribute more or less than is contributed by another participant.

It is anticipated that a large portion of the research and development efforts under the Steel Initiative Program will be conducted at DOE's National Laboratories, many of which are run by nonprofit organizations which would ordinarily be entitled to elect to retain title to inventions made in the course of or under their research work. Further, U.S. domestic steel industry participants are expected to be extensively involved in the Steel Initiative. Contracts and subcontracts will also be awarded to domestic companies or universities which have special knowledge or expertise such that their involvement and contributions would be highly beneficial. Many of these contractors also may be small businesses or nonprofit organizations ordinarily entitled under Public Law 96-517 and Public Law 98-620 to retain title to their inventions. Under normal circumstances, the standard statutory disposition of rights to inventions made under the Steel Initiative would result in fractured ownership of the technology dispersed among many contractors. In order to practice the technologies, a participant would face the possibility of having to seek multiple licenses from multiple parties with no guarantee that successful licensing arrangements could be negotiated. Such was found to be unacceptable to the U.S. domestic steel industry and a severe roadblock to proceeding with the Steel Initiative.

In an attempt to secure the needed rights for the participants and provide benefits and protection which would permit recoupment of their cost-sharing, as well as provide a means to give a competitive edge to produce net proceeds from the technology and permit repayment of the Government's expenditures, DOE has issued, pursuant to 35 U.S.C. 202(a)(ii), an Exceptional Circumstance Determination directed to DOE Funding Agreements relating to the U.S. Department of Energy Steel Initiative. This Exceptional Circumstance Determination provides that small businesses and non-profit organizations performing work under funding agreements in the Steel Initiative will not automatically obtain title to inventions made in the performance of their work. Rather, through this Advance Waiver to a Limited Class, DOE will provide for title to flow to a private concern or concerns which will hold title for the beneficial interests of the participants in the selected projects under the Steel Initiative. Following consultation with the participants in a selected project, DOE will designate a private concern which will serve as a holding company to take title pursuant to this waiver in order to control and license the technology and patents emanating from the project. It is anticipated that a single private concern would serve as the holding company for any selected project and that any particular concern could serve as the holding company for one or several projects. This waiver of rights to the designated private concern is subject to the rights of the participants and DOE as outlined in this waiver in addition to the minimum rights required to be retained by DOE under its waiver policy and any other rights as may be agreed to by DOE and the contributing participants when determining to go forward with a selected project. It is also an understanding and condition of this waiver that the designated holding company shall bear all costs associated with the patenting of waived inventions under the project (including costs associated with the preparation of patent applications, filing fees, prosecution costs, issue fees, maintenance fees, and licensing expenses). To the extent that any such costs have not been included as part of industry's cost-sharing contribution, such costs may be deducted from gross royalties received from licensing the technology in ascertaining the net proceeds, 25% of which net proceeds must be applied toward the repayment of the 1 1/2 times the federal expenditures, and prior to any distribution of net royalties to cost-sharing participants.

This Advance Waiver to a Limited Class is directed to those funding agreements with small businesses and non-profit organizations which are covered by the Exceptional Circumstances Determination related to the Steel Initiative. This Waiver is also directed to and covers those contracts under the Steel Initiative which would be governed by Section 9 of the Federal Non-Nuclear Energy Research and Development Act of 1974, those contracts with other than small businesses and non-profit

organizations where title would ordinarily vest in DOE unless waived to the contractor. However, this waiver does not apply to any agreement or other arrangement with a party to carry out other collaborative research and development activities related to the purpose of the Steel Initiative which is supported with 100% private funds which are not included in the 20% direct cost-sharing contribution by the industrial participants. To the extent that such activity is to be included as indirect cost-sharing in industry's legislatively required 30% contribution, such will be subject to a different independent waiver and different rights will flow to the industrial participants in the project to which the activity applies.

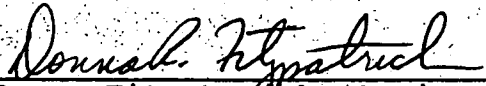
This Advance Waiver to a Limited Class will permit the concern holding title to patents for the benefit of the participants to grant royalty-free licenses to direct and indirect cost-sharing participants in the particular project. These participants will have the knowledge that they will be entitled to practice the technologies developed under the Steel Initiative project and will, through the patenting of the technology developed, be given a competitive edge over foreign competitors and other U.S. competitors who do not participate in that project. The industry participants will receive a royalty-free license to inventions arising under those projects in which they participate. While nonparticipating members of the U.S. domestic steel industry could be licensed under any patents obtained in an identified project in which they do not participate, it is a requirement of this waiver that such licenses be on a basis that will be beneficial and equitable to the participants in the project. Such could be a royalty-bearing license and such treatment of non-participants is most certainly justified in view of the participants' cost-sharing and obligation to repay Federal expenditures.

While cost-sharing participants will receive a royalty-free license to practice all patents based upon the research conducted under the Steel Initiative in the projects in which the participant cost-shares, the participants shall not have the right to sub-license except as is necessary for their own use and practice of the technology. This waiver is also subject to the provision for Preference for U.S. Industry in line with Congress' intent to provide support to the U.S. domestic steel industry. A further condition of this Waiver is that royalties received from royalty-bearing licenses which may be issued to non-participants will be equitably distributed to the cost-sharing industry participants and the Federal Government. It is believed that the Declaration of Exceptional Circumstances combined with this Advance Waiver to a Limited Class will provide the incentive to justify U.S. steel industry's participation in DOE's Steel Initiative. It further will facilitate the transfer of the technology to the private sector by establishing a single

concern for each selected Steel Initiative project with which to negotiate to obtain rights to practice the technologies developed. Further, extensive patenting by the concern of the technologies developed will provide protection from foreign competitors and will provide an equitable treatment to project participants by requiring payment of royalties to practice the technology by those in the U.S. domestic steel industry who choose not to participate and cost-share in the selected project under the DOE Steel Initiative.

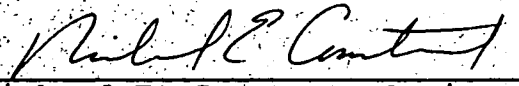
Accordingly, in view of the Congressional and statutory objectives to be obtained and the factors to be considered under DOE's Statutory Patent Waiver Policy, all of which have been considered, it is determined that this Advance Waiver to a Limited Class will best serve the interests of the United States and the general public and therefore the waiver is granted. This Waiver is directed to and covers all funding agreements with small businesses and non-profit organizations to which the Exceptional Circumstance Determination related to the U.S. Department of Energy Steel Initiative applies and to all other contracts under DOE's Steel Initiative.

CONCURRENCE:


Donna Fitzpatrick, Assistant
Secretary for Conservation
and Renewable Energy

Date: NOV 03 1987

APPROVAL:


Richard E. Constant, Assistant
General Counsel for Patents

Date: NOV 4 1987



Department of Energy
Washington, DC 20585

JUN 3 1987

Honorable Malcolm Baldrige
Secretary
Department of Commerce
Washington, D.C. 20230

Dear Mr. Baldrige:

Under 35 U.S.C. 202(a), nonprofit organizations or small business firms may elect to retain title to any inventions made under a funding agreement with the Government. However, subsection (a)(ii) states that such funding agreements may provide otherwise in exceptional circumstances when it is determined by a Federal agency that restriction or elimination of the right to retain title will better promote the policy and objectives of the law. Enclosed is a Statement of Analysis and Determination of Exceptional Circumstances (Statement) in accordance with 35 U.S.C. 202(b)(1).

This Statement covers DOE funding agreements with small businesses or nonprofit organizations relating to DOE's Steel Initiative.

Since the facts and analysis supporting this Statement will apply to a number of DOE funding agreements, we intend to apply the Statement to relevant DOE funding agreements on a class basis under the Steel Initiative, rather than on a case-by-case basis. The determination on a class basis will provide for a more timely and efficient administration of funding agreements.

Section 203(2) of Title 35 U.S.C. provides a right of appeal to a contractor of any agency's exceptional circumstance determination. This Statement, therefore, provides for an appeal at the time of contracting.

Sincerely,

Original signed by:

J. Michael Farrell
General Counsel

Enclosure

cc w/enclosure:
Frank S. Swain
Chief Counsel for Advocacy
Small Business Administration
Washington, D.C. 20416

Statement of Analysis and Determination of Exceptional
Circumstances for DOE Funding Agreements Relating to
the U.S. Department of Energy Steel Initiative

For the reasons, facts, and justifications set forth below, the Department of Energy (DOE) has determined pursuant to 35 U.S.C. 202(a)(ii) that the circumstances surrounding the Department of Energy's Steel Initiative Program are exceptional. Accordingly, a disposition of patent rights different from that applicable under Public Law 96-517 and Public Law 98-620 for funding agreements with small businesses or nonprofit organizations under this Steel Initiative Program is necessary. Allocation of patent rights to a holding company for the benefit of participants in the Steel Initiative under this Program will better promote the policies and objectives of Chapter 18, Title 35 of the U.S. Code.

The Department of Energy acting through its Office of Industrial Programs under the Assistant Secretary for Conservation and Renewable Energy has established and is carrying out a Steel Initiative Program in order to improve the international competitive position of the U.S. domestic steel industry. As a part of this initiative, it is intended that the position of the U.S. domestic steel industry will be enhanced through commercialization of innovative technology developed in cooperation with DOE's National Laboratories. The U.S. Congress has supported the Steel Initiative by explicitly directing additional funds to the Department of Energy Steel Initiative Program through appropriations bills, the most recent being the continuing appropriations for Fiscal Year 1987, Public Law 99-591 (House Joint Resolution 738). This legislation specifically authorized an additional 2 million dollars to be made available for continuing a research and development initiative with the National Laboratories for new technologies up to proof-of-concept testing to increase significantly the energy efficiency of processes for producing steel. Congress had previously appropriated 7.1 million dollars for this Steel Initiative in Public Law 99-199, (House Joint Resolution 465), Further Continuing Appropriations for Fiscal Year 1986, adopting the appropriations as provided in the Department of the Interior and Related Agencies Appropriation Act, 1986. The legislation appropriating this 9.1 million dollars explicitly requires a cost-sharing contribution by the "participants" equal to 30% of the amount of the Federal Government obligations and further provides that the total Federal Government expenditures shall be repaid up to 1-1/2 times from the proceeds of the commercial sale, lease, manufacture, or use of technologies developed, at a rate of 1/4 of all net proceeds. The Congressionally stated objective of the legislation is to assist U.S. domestic steel industry in developing new, more efficient technologies which will permit the U.S. domestic industry to compete on a more even basis with the nondomestic steel industry.

The "participants" who will accept the obligations of cost-sharing and repayment of the Federal Government's expenditures, as directed by Congress, will comprise various parties from the U.S. domestic steel industry. Participation may be on a full participation basis in the entire Steel Initiative, participation on a project by project basis, participation in selected project areas, or other limited participation where the obligations assumed, the rights received, and the degree of involvement are less than for full participation and are balanced on the basis of the equities present in the particular situation.

It is anticipated that a large portion of the research and development efforts under the Steel Initiative Program will be conducted at the National Laboratories. However, the U.S. domestic steel industry "participants" will be involved extensively in the Steel Initiative and it is fully anticipated that contracts and subcontracts also will be awarded to nonparticipating companies in the U.S. domestic steel industry and to other domestic companies or universities which have special knowledge or expertise such that their involvement and contributions would be highly beneficial to the Program.

Without this exceptional circumstances determination, small businesses and nonprofit contractors and subcontractors would automatically be entitled, pursuant to Public Law 98-620, to retain title to their inventions with the result that the domestic steel industry participants would not be assured of license rights to use the technology. Rather, the participants would be required to negotiate license rights with any such contractor or subcontractor who would retain title in a key or useful invention. Of course, there would be no guarantee that any participant would be successful in such negotiations. It would be inequitable for the participants, who are obligated to cost share and to repay the Government's contribution, to be faced with the specter of future license negotiations and royalty payments or an inability to practice the technology which the participants ultimately would have paid to develop. Further, there would be the possibility that numerous license agreements with various parties would be required to practice any technology developed. Such fragmentation of rights in the absence of a declaration of exceptional circumstances may well frustrate the ability to commercialize and utilize the technology developed, completely frustrating the clear intent of Congress in enacting the legislation.

Further, in the absence of this exceptional circumstances determination, the ownership of the rights in the technology may be fragmented among a number of contractors and there would be no guarantee that the licensing of the technology by these contractors would be done in a manner so as to benefit the U.S. domestic steel industry. Congress has clearly stated that its objective in supporting the Steel Initiative is to assist and

benefit the U.S. domestic steel industry. By inclusion of the "Preference for U.S. Industry" sections in both Public Law 96-517 and Public Law 98-620, Congress has also expressed its concern with the interests of the U.S. domestic industry. A declaration of exceptional circumstances under which all rights would flow to a holding company for the benefit of participants in the Steel Initiative would permit the control of ownership of the entire technology package so as to facilitate and assure transfer of the entire technology to the private sector in a manner which will be beneficial to the U.S domestic steel industry.

In accordance with this exceptional circumstances determination the Department of Energy will effectively transfer title, by a waiver granted in conformance with DOE's waiver procedures, 41 CFR 9-9.109-6, to a private concern or concerns in order to consolidate the technology package for commercialization and utilization within the U.S. domestic industry for the benefit of the participants in the Steel Initiative. The private concern can be viewed generically as a holding company which would take title under a waiver from DOE in order to control and license Steel Initiative technology to the U.S. domestic steel industry. Each participant and the U.S Government acting through DOE would enter an agreement with the holding company providing for the transfer of title to the holding company and the retention of rights to utilize and share in the benefits of the technology by the participants based upon the equities of the participant. Licensing to nonparticipating members of the U.S. domestic industry would be on a basis beneficial and equitable to the participants.

For the Steel Initiative, Congress has directed that the steel industry participants contribute an amount equal to 30% of the Federal Government obligations and that the Federal Treasury shall recoup an amount up to 1-1/2 times the Federal expenditures at a rate of 1/4 of all net proceeds obtained from the commercial sale, lease, manufacture, or use of the technologies developed. A means must be provided to encourage domestic industry to participate in the Steel Initiative and to expedite the commercialization and utilization of the technologies developed. This exceptional circumstances determination will permit title to the entire technology package to vest, through the waiver process, in a holding company or companies which will guarantee to the participants a right to utilize the entire technology developed. This up-front knowledge that there will be a right to use all the technology developed on an uniform and equitable basis for all participants without the potential future necessity for negotiations with multiple parties for license rights in various aspects of the technology will encourage participation in the Steel Initiative. The participants will be able to utilize the best technology developed without fear of additional future obligations and license negotiations, thereby expediting the utilization and commercialization of that technology. Such

knowledge and guarantees will provide the incentive and justify the commitment of private funds for participation in the Initiative.

For these reasons, the Department of Energy has determined that exceptional circumstances exist as provided in Section 202(a)(ii) of Chapter 18 of Title 35 of the U.S. Code and that funding agreements with small businesses or nonprofit organizations under the Department of Energy Steel Initiative shall contain patent provisions enabling the waiver of rights to inventions to a holding company for the benefit of participants in the Steel Initiative. However, this exceptional circumstances determination does not preclude these small business or nonprofit organization contractors from seeking patent waivers in accordance with established policies and procedures.

Under 35 U.S.C. 203(2), a contractor has a right of appeal of any agency's exceptional circumstances determination. Accordingly, each contractor to which this determination applies will be provided with notice of this determination and its right of appeal.